

Presentation to the Benefits Committee of the Blue Ribbon Panel

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June 15, 2005



Consumerism

- Goals
 - Providing access to affordable health insurance for employers, individuals and their families
- How
 - Consumerism : movement towards empowering consumers to make informed decisions in how they purchase health care services
 - Products: FSA, MSA, HRA, HSA

Supply Controls or Demand Controls

- Employers and Members have two basic choices to control costs:
 - Current managed care - The “supply of care” is limited by a third party who controls the access to medical services (e.g. utilization reviews, medical necessity, gatekeepers, formularies, scheduling, types of services allowed), or
 - Consumerism - The member controls their “demand for care” because of a direct and significant financial involvement in the cost of care, rewards for compliance, and the information to make wise health and healthcare value driven decisions.

Supply Controls Are Failing

- High Healthcare Costs Climbing Higher
- Patients have lost control of their own healthcare, and are not truly engaged in the process of managing their health
- Patients are frustrated with managed care “rules” and the impact on time and productivity
- Patients don’t understand healthcare costs – costs are not transparent

“After long relying on managed-care companies as their weapon against health costs, U.S. employers are considering a fundamental change in strategy: turning the fight over to their employees.”

*- Wall Street Journal,
February 2000*

Objectives Of Consumerism

- **Change participant health and healthcare purchasing behaviors**
- **Reduce costs** for “discretionary care” through informed purchasing & incentives
- **Reduce costs** of Chronic Conditions through improved compliance with treatments and disease management programs
- **Reduce Acute Care costs** with incentive based provider tiering based upon cost and quality
- **Reduce long term costs** with added incentives for “good health”

Consumerisms Choices Involve Options for Behavioral Change Rather Than Optional Plan Designs

- Consumerism Choices:
 - Wellness
 - Preventive care
 - Early Intervention
 - Lifestyle Options (**diet, exercise, smoking, safety**)
 - Self-help, self care
 - Discretionary Expenses (**e.g. ER, Rx**)
 - Value purchasing (**e.g. o/p vs. in/p**)
 - Participation in Disease Management Programs
 - Compliance with Evidence Based Medicine Treatment Plans

Components for Success of Consumerism

- Accessibility and availability of information
 - Cost of health care services
 - Quality of health care services

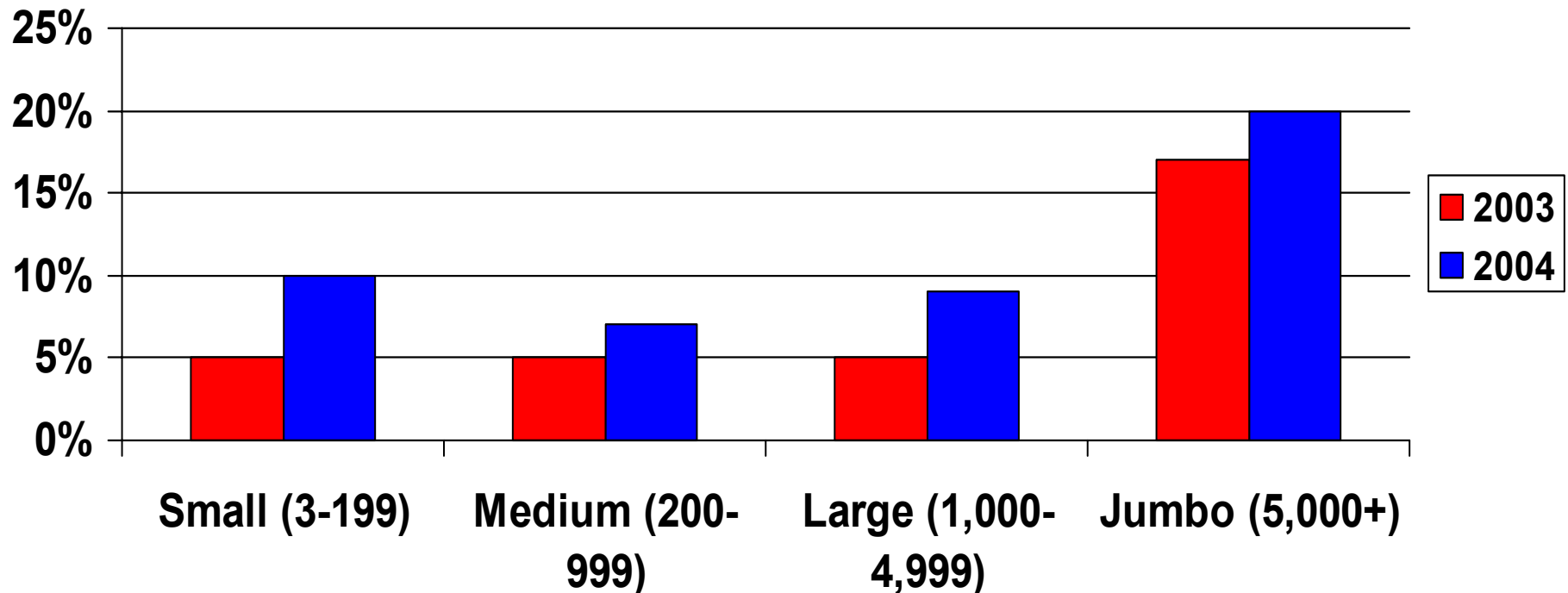
High Deductible Health Plans

- **Individuals**
 - Minimum deductible – at least \$1,000
 - Maximum deductible - \$2,650
- **Families**
 - Minimum deductible – at least \$2,000
 - Maximum deductible - \$5,250
- **Confirm amounts with a licensed agent**

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.
http://www.medplanaccess.com/hsa/hdhp_benefits.htm

High Deductible Health Plans

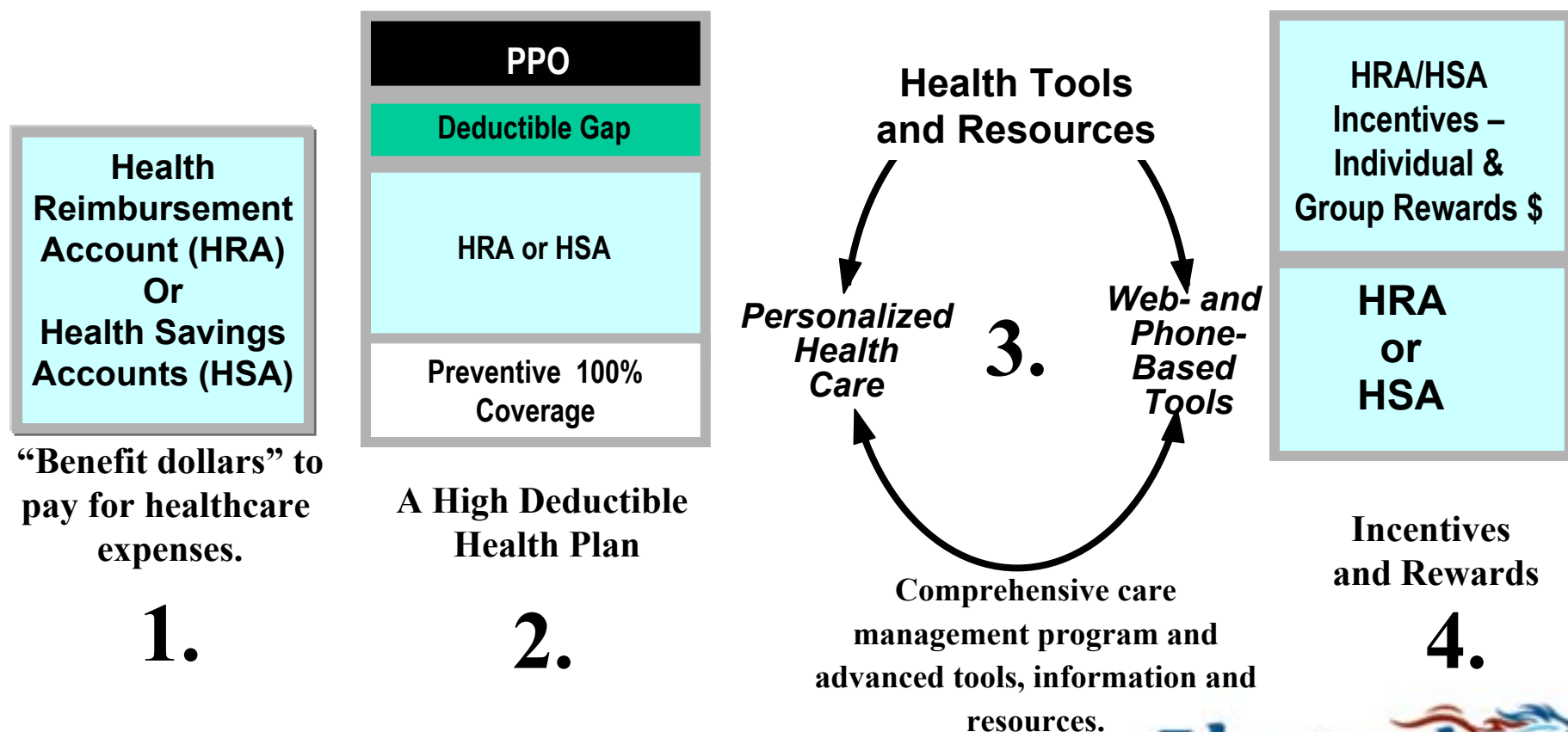
% of Firms that Offer Employee High-Deductible Health Plans



Kaiser Family Foundation. Employer Health Benefits, 2004 Annual Survey. September 2004.

Consumerism: Plan Design Components

Four components that work together to improve quality, outcomes, and cost.



Consumer Driven Health Care

- **Products**

- FSA – Flexible Spending Accounts
- MSA – Medical Savings Accounts
- HRA – Health Reimbursement Accounts
- HSA – Health Savings Accounts

Flexible Spending Accounts (FSA)

- Available since 1979
- Reimburses employees for their medical expenses
- Contributions can be made by both the employer as well as the employee
 - May be excluded from gross income
 - Withdrawals can be made tax-free for *qualified medical expenses*
 - No maximum limit on the amount contributed
 - Amount must be designated in advance, prior to the company's plan year
 - Example – I wish to fund \$1,200 in an FSA. I am paid monthly, \$100 is removed from my gross pay and applied to my FSA account
 - Access to the full amount on day one of plan year
- Remaining funds may not be rolled over to the next plan year
- Distributions
 - Qualified Medical Expenses ONLY, examples: copayments, deductibles and prescriptions
 - Distributions cannot be made for: health insurance premiums, long term care coverage, amounts covered under another health plan and other expenses
- Other

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Medical Savings Accounts (MSA)

- **Key Components**
 - Available since January 1, 1997
 - Created to help self-employed individuals and employees of small employers (50 or fewer) pay for health care services
 - Utilizes a tax-exempt trust or custodial account (usually a bank or insurance company)
 - Allows consumers to save for future medical expenses
- **Benefits**
 - Tax deductible contributions into account
 - Interest and other earnings are tax free
 - Distributions tax free for *qualified medical expenses*
 - Allows for fund roll-over from year to year
 - Portability
- **Eligibility Qualifications**
 - Enrolled in a High Deductible Health Plan (HDHP)
 - No other health coverage is permitted, including Medicare, except: liability from workers compensation, Disease or illness policy, Hospitalization per diem policy, Accident, LTC, Disability, Dental and Vision

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Medical Savings Accounts (MSA)

- **Contributions**
 - Two limits
 - Annual deductible of HDHP
 - 75% of the annual deductible, or 65% for self-only
 - Income Limit
 - Remaining funds MAY be rolled over to the next plan year
- **Distributions**
 - Qualified Medical Expenses: copayments, deductibles, prescriptions, health insurance premiums while receiving unemployment benefits, long term care coverage, health care continuation coverage
 - Distributions may not be used for other health insurance premium
- **Other Issues**
 - Other Non-Qualified Distributions – non-medical expenses
 - Subject to tax penalty
 - Excess contributions greater than maximum
 - Subject to tax penalty
 - No additional tax on distributions after reaching age 65, when you become disabled or upon death
 - Beneficiary designation

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Health Reimbursement Arrangements (HRA)

- **Key Components**
 - Available since June 26, 2002
 - Reimburses employees for *qualified medical expenses*
 - Funded solely by the employer, usually directly by the employer or through voluntary salary reduction
- **Benefits**
 - Contributions can be excluded from gross income
 - Reimbursement may be tax-free for *qualified medical expenses*
 - Amounts can be carried over from year to year at the discretion of the employer
- **Eligibility**
 - Employer based
 - May be offered with other health insurance coverage, but not required

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Health Reimbursement Arrangements (HRA)

- **Contributions**
 - Made by the employer
 - No maximum contribution amount
- **Distributions**
 - Qualified Medical Expenses
 - Copayment
 - Deductibles
 - Prescriptions
 - Health insurance premiums
 - Long term care coverage
 - Amounts not covered by another health plan

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Health Savings Accounts (HSA)

- **Key Components**
 - Became available January 1, 2004
 - Utilizes a tax-exempt trust or custodial account (usually a bank or insurance company, as well as another IRS approved trustee)
- **Benefits**
 - Tax deductible contributions, “above the line” deduction for federal
 - State tax modernization bill
 - Interest and other earnings are tax free
 - Distributions tax free for *qualified medical expenses*
 - Allows for fund roll-over from year to year
 - Portability
- **Eligibility Qualifications**
 - Enrolled in a High Deductible Health Plan (HDHP)
 - No other health coverage is permitted, including Medicare, except: liability from workers compensation, disease or illness policy, hospitalization per diem policy, accident, LTC, disability, dental and vision

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Health Savings Accounts (HSA)

- **Contributions**
 - Who can contribute?
 - Individual/Employee
 - Employer
 - Both
 - Family members
 - Maximum contribution amount 2005
 - Individual – up to the annual deductible amount of the HDHP, but not more than \$2,650
 - Family – up to the annual deductible amount of the HDHP, but not more than \$5,250
 - Catch up” contributions
 - Age 55 and older
 - Additional \$500 in 2004, \$600 in 2005
 - Remaining funds MAY be rolled over to the next plan year

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

Health Savings Accounts (HSA)

- **Distributions**
 - Qualified Medical Expenses: copayment, deductibles, prescriptions, health insurance premiums while receiving unemployment benefits, long term care coverage, health care continuation coverage,
 - For individuals enrolled in Medicare:
 - Medicare premiums and out-of-pocket expenses (Part A, Part B, Medicare HMOs, new prescription drug coverage)
- **Distributions may not be used for:**
 - Other health insurance premium
 - Medigap premiums
- **Other Issues**
 - Other Non-Qualified Distributions – non-medical expenses
 - Included in gross income and subject to tax penalty
 - Excess contributions greater than maximum
 - Subject to tax penalty
 - No additional tax on distributions after reaching age 65, when you become disable or upon death
 - Beneficiary designation

Source: Health Savings Accounts and Other Tax-Favored Health Plans. Publication 969. www.irs.gov.

The Future?

- Health Savings Accounts
 - Over 425,000 HSA currently exist
 - Over 50,000 new accounts are opened each month
 - Expected by 2012, over 17 millions HSA will be in use

HSA Adoption Predicted To Accelerate In 2006. [Yahoo! News](#)

Consumerism

- Uses multiple products including FSAs, MSAs, HRAs, and / or HSAs to
 - Provide access to affordable health insurance for employers, individuals and their families
 - Empower consumers to make informed decisions in how they purchase quality health care services